

March 23, 2001

Ms. Donna Caton
Chief Clerk
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62701

RE: Docket No. 01-0174
Blackhawk Energy Services, L.L.C.

Dear Ms. Caton:

Enclosed for filing on behalf of the Staff of the Illinois Commerce Commission in the above referenced docket is the Staff Report.

Please acknowledge receipt of this filing by returning a date-stamped copy to me.

Sincerely,

Janis E. Von Qualen
Staff Attorney

JVQ/ja

Enclosures

cc: Mr. William J. Showtis, Hearing Examiner
Service List

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Blackhawk Energy Services, L.L.C.	:	
	:	01-0174
Application for Certificate of Service	:	
Authority under Section 16-115 of the	:	
Public Utilities Act	:	

**REPORT OF THE STAFF
OF THE ILLINOIS COMMERCE COMMISSION**

NOW COMES the Staff of the Illinois Commerce Commission ("Staff") and files the attached Staff Report, with a supporting affidavit, in Response to the Application filed by Blackhawk Energy Services, L.L.C. ("Blackhawk") on February 16, 2001. The Application requests the Illinois Commerce Commission ("Commission") to grant a certificate of service authority to operate as an Alternative Retail Electric supplier ("ARES") in Illinois pursuant to Section 16-115 of the Public Utilities Act. 220 ILCS 5/16-115.

Respectfully submitted,

JANIS E. VON QUALEN
LINDA M. BUELL
Staff Attorneys

Counsel for the Staff of the
Illinois Commerce Commission

JANIS E. VON QUALEN
LINDA M. BUELL
Office of General Counsel
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62701
Phone: 217-785-3402 or 217-557-1142
Fax: 217-524-8928

STAFF REPORT TO THE HEARING EXAMINER
March 23, 2001

SUBJECT:

Examination of Petition for Alternative Retail Electric Supplier Certification, Docket 01-0174

BACKGROUND:

Staff has been requested to examine information provided in Docket 01-0174, a petition for certification as an Alternative Retail Electric Supplier by Blackhawk under section 16-115 of the Public Utilities Act.

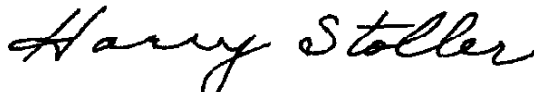
ANALYSIS:

Staff's analysis, as described in the attached affidavit of Mr. Bruce Larson, indicates that if the possibility of serving customers with differing load factors is considered in analysis of whether or not an Illinois utility could economically serve a customer in the relevant Wisconsin service territory, then the conclusion would be that the Illinois utility could provide the service economically to low-load factor industrial customers.

CONCLUSION:

If the Commission determines that the appropriate standard for determining whether an Illinois utility could economically deliver power and serve customers in the service territory of an ARES applicant, or the affiliate of an ARES applicant, is whether or not that power could effectively compete for even low-load factor customers, then the Blackhawk certification application should be denied.

Prepared by:



H. L. Stoller
Director, Energy Division

STATE OF ILLINOIS)
)
COUNTY OF SANGAMON)

SS

AFFIDAVIT

Bruce A. Larson, being duly sworn upon his oath, deposes and states as follows:

1. I am employed by the Illinois Commerce Commission, as a Senior Energy Engineer in the Electric Section in the Engineering Department of the Energy Division.

2. I am assigned to Docket No. 01-0174 where I reviewed the data provided by Blackhawk regarding the cost for Illinois utilities to hypothetically serve customers in the service areas of Blackhawk's electric utility affiliates.

3. In its Application filed February 16, 2001, Blackhawk Energy Services, L.L.C. ("Blackhawk") compared the cost for Illinois utilities to hypothetically serve customers in its service areas to the rates of Wisconsin Electric ("WE"), one of Blackhawk's retail affiliates, which serves a defined geographic area in Wisconsin, charges those same customers. The analysis used two different estimates of costs to Illinois utilities; the Power Purchase Option ("PPO"), and incremental cost. See the tables of Attachment C to the Application. These were compared to three different estimates of cost of service for the most representative WE retail rate class.

4. I performed the analysis below as a result of the Commission's March 16, 2001, Order in Docket 00-0199. That proceeding involves an application for a certificate of service authority WPS Energy Services, Inc. ("WPS"), filed pursuant to Section 16-115 of the Public Utilities Act. The Order determined that the Commission had erred in not considering information from sources other than the applicant in

Section 16-115 cases, and directed Staff to prepare a Report which states whether there are any other sets of assumptions which would assist the Commission in determining whether either of WPS's retail affiliates serves a defined geographic area to which electric power and energy can be physically and economically delivered by the electric utilities in whose service areas WPS sought to provide ARES service. The following analysis is filed in an effort to assist the Commission in reaching a decision in 01-0174, given the similarity between the electric utility affiliates of WPS and those of Blackhawk, and considers the costs involved in serving other than the average customer for two WE rate classes. In particular, since WE's retail rates contain demand charges, varying customer load factors can result in varying rates. The average rate concept does not consider the interplay of demand charges and customer load factors. The table below demonstrates this fact. The table is based on current WE rates for the Cp-1 industrial rate class.

Load Factor	Cp-1 Average Cost
100%	35.9
90%	37.2
80%	38.9
70%	41.1
60%	44.0
50%	48.0
40%	54.1
30%	64.3

5. In the documentation accompanying its application, Blackhawk calculated the cost that ComEd would face to serve Cp-1 customers to be between \$50.0 and \$54.9 per MWh. ComEd's wholesale power costs do not vary as greatly with load factor as WE's retail costs because the retail costs include a demand charge and the wholesale costs do not. Assuming the spread of energy by time of day and by season

stays the same with varying load factor, then ComEd's costs are invariant to load factor and WE's retail costs vary as shown in the table. There are an unlimited number of combinations of load by time of day and season. Some will have higher costs and some lower. ComEd could thus economically serve a WE retail customer in the Cp-1 rate class at load factors between 40 - 50%, which is within the range of probable load factors for certain industrial customers. Blackhawk also compared WE tariffed rates to ComEd's incremental cost. Since ComEd's incremental cost is lower than its market cost, this analysis simply adds more customers that ComEd could serve.

6. Blackhawk has also compared the cost to Illinois Power of serving retail load in the WE service territory. Blackhawk estimated Illinois Power's total cost to serve based on NFF derived market values to be \$48.95 for Cp-1 customers and \$61.89 for Cg-3 customers. Illinois Power could thus economically serve a WE retail customer in the Cp-1 rate class at load factors just below 50%, which is well within the range of probable load factors for certain industrial customers. In addition, if any of these electric utilities purchased electricity at wholesale in ComEd's service area, then based upon the same cost assumptions as are used in paragraph 5 of this Affidavit, these electric utilities would have the same ability to economically serve a WE retail customer in the Cp-1 and Cg-3 rate classes at load factors between 40 - 50%.

7. The Commission's Order on reopening in Docket No. 00-0199 also requested that Staff not limit itself to considering the sale of electricity from generating resources owned or controlled by these four electric utilities. In accordance with this request, Paragraph 6 above includes the assumption that Illinois Power purchases wholesale electricity within ComEd's service area for resale to retail customers in WE's

service area. My analysis has also included a review of the impact of an Illinois utility buying wholesale power in WE's territory and reselling it at retail. While this would remove any physical barriers and reduce transmission costs, it does not necessarily reduce the cost of power and energy. I have seen no evidence that wholesale prices an Illinois utility would pay in Wisconsin are lower.

8. Given the above, ComEd and Illinois Power Company can economically sell to some of WE's Cp-1 customers with load factors less than the class average.

FURTHER AFFIANT SAYETH NOT

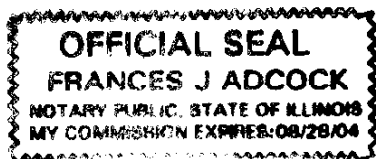


BRUCE A. LARSON

Subscribed and sworn to before me
this 23rd day of March, 2001.



(Notary Public)



STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Blackhawk Energy Services, L.L.C.	:	
	:	01-0174
Certificate of Public Convenience and	:	
Necessity/Service Authority (8-406,	:	
13-403, 13-404, 13-405, 16-115) - New	:	

NOTICE OF FILING

TO: Attached Service List

PLEASE TAKE NOTICE that on this 23rd day of March, 2001, I have filed with the Chief Clerk of the Illinois Commerce Commission, the Staff Report, copies of which are hereby served upon you.

JANIS E. VON QUALEN
Staff Attorney

Counsel for the Staff of the Illinois Commerce
Commission

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing Notice of Filing, together with the Staff Report, was served upon the parties on the attached service list by electronic mail and by first class mail, proper postage prepaid, on the 23rd day of March, 2001.

JANIS E. VON QUALEN

***Service List - Docket No. 01-0174
Blackhawk Energy Services, L.L.C.***

Linda M. Buell
Office of General Counsel
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62701

David I. Fein
Piper Marbury Rudnick & wolfe
203 North LaSalle St.
Suite 1800
Chicago, IL 60601-1293

John Obermiller
Vice President of Operations
Blackhawk Energy Services
P.O. Box 2226
N16W23217 Stone Ridge Drive
Waukesha, WI 53187-2226

Christopher J. Townsend
Piper Marbury Rudnick & wolfe
203 North LaSalle St.
Suite 1800
Chicago, IL 60601-1293

Janis E. Von Qualen
Office of General Counsel
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62701

Commission Staff:

Bill Showtis, Hearing Examiner
Phil Hardas, Finance Dept.
Michael Harris, Energy Division
Bruce Larson, Energy Division
Bill Riley, Energy Division